

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7066

BILL NUMBER: HB 1438

NOTE PREPARED: Jan 2, 2009

BILL AMENDED:

SUBJECT: Renewable Energy Investment Tax Credit.

FIRST AUTHOR: Rep. Grubb

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill establishes a Renewable Energy Production Facility Investment Tax Credit. It provides that the tax credit is equal to 10% of a taxpayer's investment in a renewable energy production facility. It permits the tax credit to be claimed beginning in the taxable year in which the renewable energy production facility is placed into service. It requires the credit to be claimed in ten annual installments. The bill also requires a taxpayer and the Indiana Economic Development Corporation to enter into a tax credit agreement.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Administrative Expenditures* - This bill will increase expenditures for the Department of State Revenue (DOR) and the Indiana Economic Development Corporation (IEDC). The DOR will have to amend forms, adopt rules and procedures, and update computer software to incorporate the tax credit established in this bill. The IEDC will realize administrative costs in forming agreements to award tax credits to certain taxpayers as well as monitoring compliance with the credit awards agreement. The amount of increased expenditures is indeterminable, but it is estimated that both the DOR and IEDC could implement these provisions through the use of existing staff and resources.

Explanation of State Revenues: *Summary* - This bill provides a tax credit equal to 10% of a taxpayer's investment in a renewable energy resource beginning in tax year 2010, and will reduce revenue from the Individual and Corporate Adjusted Gross Income (AGI) tax; the Financial Institutions Tax (FIT), and the Insurance Premiums Tax (IPT) by an indeterminable amount.

The credits awarded by the IEDC must be claimed in 10 annual installments beginning with the taxable year

in which an investment in a renewable energy resource is made. The amount of each installment will be the amount of the credit awarded divided by 10. The credit may not be refunded or carried back, but may be carried forward for 10 taxable years in addition to the installment allowed. A taxpayer can sell, assign, or transfer the tax credit. Entities receiving the tax credit must agree to remain at the location where the investment was made for a 10-year period. The IEDC is required to annually determine if those receiving the credits are in compliance with the terms of the agreement for the tax credit.

The amount of credits that could potentially be claimed each year is indeterminable and depends on the number of entities approved by the IEDC as well as the amount of the approved entities' investment in renewable and alternative energy technology. Since the tax credit is effective beginning in tax year 2010 for qualified investments, the fiscal impact likely would not begin before FY 2011. Revenue from the AGI Tax on individuals and corporations, the FIT and the IPT is distributed to the state General Fund.

Background on Renewable or Alternative Energy Technology - According to the American Wind Energy Association, the estimated cost of construction for a wind energy system can range from \$6,000 to \$80,000. The cost is determined by class and size of turbines, as well as wind speed. Because wind power is highest during the winter and spring and lowest in the summer in Indiana, wind energy may be a better source for heating rather than cooling.

Solar energy could be utilized for electricity and thermal energy. Because of the lack of annual solar radiation, Indiana would have more use for flat-plate collectors for low temperature requirements than for grid-connected solar projects. Flat-plate collectors can be utilized to heat swimming pools, domestic water, and provide spatial heating in buildings. These systems are estimated to cost between \$1,500 to \$3,000.

Photovoltaic (PV) cells convert sunlight directly into electricity. These systems vary in cost based upon watts. Also, the larger the system, the lower the cost per watt. A 2-kilowatt system is estimated to cost approximately \$11,000, and a 10-kilowatt system is estimated to cost \$60,000.

Anaerobic digestion systems use organic waste to produce gases that are burned as fuel to produce electricity. The cost of installing a biomass system depends upon the size and type of the unit purchased. A 20-kilowatt system may cost approximately \$7,500 to \$18,000.

Hydropower is produced by converting the energy of falling water into electrical energy. Initial costs for hydropower projects are estimated to be \$1,700 to \$2,300 per kilowatt. In 2005, hydroelectric power represented 0.3% of the total electricity generated in Indiana.

Fuel cells combine hydrogen and oxygen to produce electricity. Currently, fuel cell systems are only available in 200-kilowatt sizes and cost about \$3,000 per kilowatt.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR: IEDC.

Local Agencies Affected:

Information Sources: Indiana Renewable Energy Resources Study, 2007; U.S. Department of Energy, Energy Efficiency and Renewable Energy, Annual Report on U.S. Wind Power Installation, Cost and Performance Trends: 2007; American Wind Energy Association, <http://www.awea.org>; National Climatic Data Center.

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